Capital Strategy 2022/23 to 2031/32

1. Background and Scope

1.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a Capital Strategy to demonstrate how capital expenditure, capital financing and treasury management activity contribute to the provision of desired outcomes and take account of stewardship, value for money, prudence, sustainability and affordability. The Prudential Code is being significantly updated to incorporate changes which restrict councils using borrowing to finance commercial property investment solely for generating yield. The Capital Strategy reflects the new requirements and compliance to them.

1.2. This Capital Strategy forms part of the framework for financial planning and is integral to both the Medium Term Financial Plan (MTFP) and the Treasury Management Strategy (TMS). It sets out how capital investment will play its part in delivering the ambitious long term strategic objectives of the Council, how associated risk is managed and the implications for future financial sustainability.

1.3. All capital expenditure and capital investment decisions are covered by this strategy, not only as an individual local authority, but also those entered into by the authority under group arrangements. It is refreshed annually in line with the MTFP and TMS to ensure it remains fit for purpose and enables the Council to make the investments necessary to deliver its strategic aims and objectives.

1.4. The Capital Strategy is considered by the Council as one of the foundations of good financial management and reflects the requirements under the CIPFA Financial Management Code.

2. Capital Expenditure

2.1. In contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services, capital expenditure seeks to provide long-term solutions to Council priorities and operational requirements. Capital expenditure is technically described as: Expenditure on the acquisition, creation or enhancement of 'non-current assets' ie. items of land, property and plant which has a useful life of more than 1 year. Expenditure for capital purposes therefore gives rise to new assets, increases the value or useful life of existing assets or, generates economic and social value and an income stream to the Council via non-treasury investments.

2.2. The five aims of the Capital Strategy are:

i. To take **a long term perspective on capital investment** and to ensure this contributes to the achievement of Bristol's One City Plan, emerging Local Plan and key strategies such as the Corporate Strategy.

ii. To ensure investment is **prudent, affordable, and sustainable** over the medium term and adheres to the prudential code, Treasury Management Code and other regulatory conditions.

iii. To maintain the arrangements and **governance for investment decision-making** through the established governance boards.

iv. To make the **most effective and appropriate use of the funds available** in long term planning and using the most optimal annual financing solutions.

v. To establish **a clear methodology to prioritise capital proposals**.

2.3. The MTFP sets out the key principles and this strategy will support the achievement of the right blend of investment in key priority areas to enable the following:

- Investing for sustainable, inclusive economic growth
- Invest to save and to generate returns
- Investment to improve and maintain Council assets

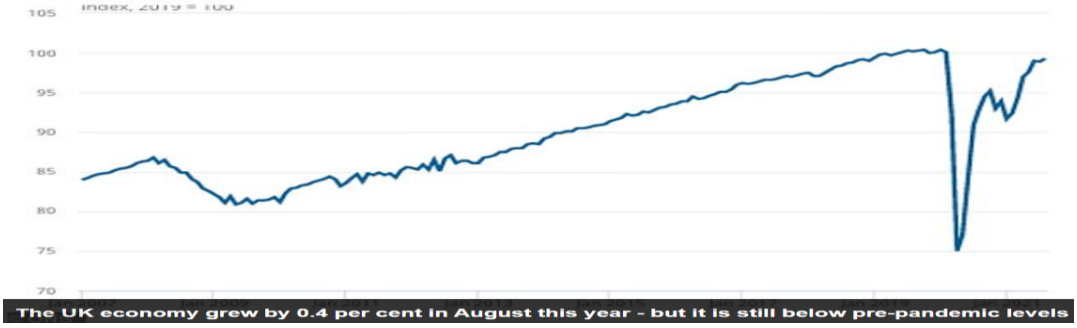
3. Policy Context

National Policy Context

3.1. The UK economy is currently in the process of recovering from the unprecedented economic impact of the Covid-19 pandemic. The graph below from the Office of National Statistics shows that during the pandemic the UK's Gross Domestic Product fell by around 25%, and has recovered strongly since. However, there are a number of risks around how quickly the economy will grow in the short to medium term including the unwinding of government support to businesses/households throughout the pandemic, inflation and supply/capacity challenges.

Figure 1: UK GDP is estimated to have grown by 0.4% in August 2021, and remains 0.8% below its pre-pandemic level (February 2020)

Monthly index, January 2007 to August 2021



3.2. A core policy area for the current government is its Levelling Up Agenda with its aim to reduce levels of disparity across the UK. The government's Budget in Autumn 2020 announced a £4.8bn Levelling Up Fund which will invest in infrastructure including regeneration, local transport projects and cultural and heritage assets. A further core policy area for government is to reduce carbon emissions and become carbon neutral. Each of these policy areas provide opportunities for Bristol.

Local Policy Context

3.3. A number of significant developments and strategic documents have been established in recent years that will continue to have a major influence on the future shape and approach to capital investment within the City. These include Bristol's One City Plan, Corporate Strategy and the proposals to ensure there is a diverse housing offer for the city including homes that are affordable, the emerging Local Plan and within a wider regional context our role within the West of England Combined Authority (WECA) in terms of transport, skills and inclusive economic growth.

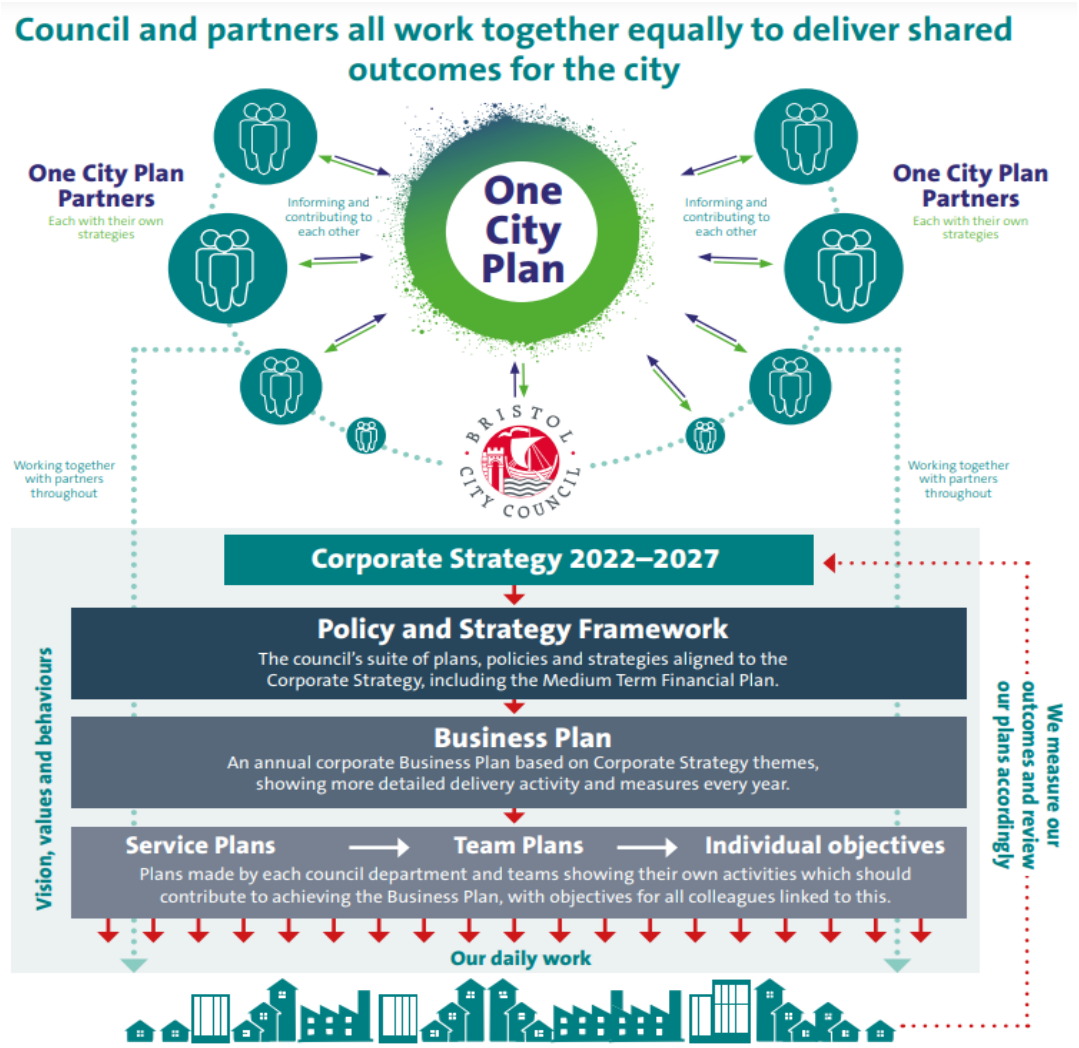
3.4. **Bristol's One City Plan** has been developed by many different partners covering almost every aspect of life in Bristol; all have a role in making Bristol a thriving, healthy and more equal city in the future. It is an ambitious, collaborative approach to reach a shared vision for Bristol where no one is left behind. It is recognised Bristol's successful local economy has not always delivered prosperity evenly across citizens. Increasing economic inclusion will provide a boost to local economic growth and provide sustainability and resilience.

3.5. The Council's **Corporate Strategy** 2022-27 sets out the Council's vision and priorities for the City and sets out the Council's role in supporting the One City Plan. The Strategy has been refreshed to make sure our priorities reflect our current situation such as: refreshed political priorities; the One City Plan and the needs of Covid-19 recovery. Itis based around the

following five guiding principles that influence how we do things and the way in which we design our projects, services and priorities. The five building blocks are:

- **Development & Delivery** - Develop people, places and partnerships to improve outcomes.
- **Environmental Sustainability** - Tackle the Climate and Ecological Emergencies while inclusively growing the economy, maximising our positive environmental impacts and avoiding or mitigating negative ones wherever possible.
- **Equality & Inclusion** - Pro-actively and intentionally improve equality and inclusion across the city by designing it into everything we do.
- **Resilience** - Build Bristol's city resilience through early intervention, minimising our contribution to future environmental, economic or social shocks and stresses.
- **World class employment** - Role model, influence and promote the highest levels and standards of employment.

3.6. The graphic below summarises how these strategies and plans link together and 'Our Corporate Strategy – at a glance' is shown at Appendix 1.



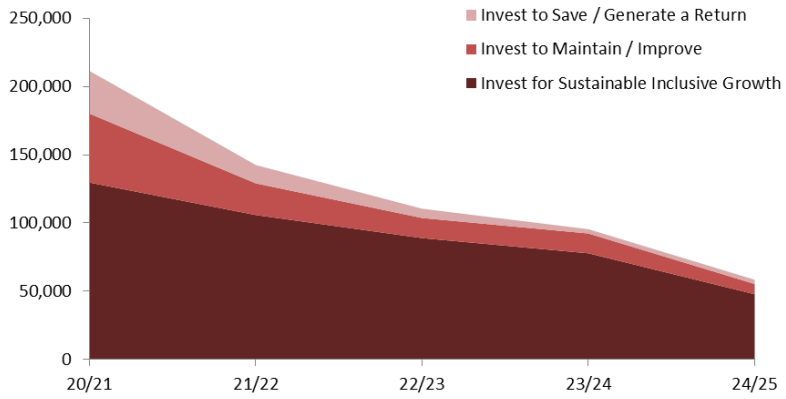
3.7. In addition to the Corporate Strategy there are a number of complementary proposals and emerging plans which will also drive the Capital Strategy and future capital investment; examples of which are outlined below:

- Capital spending on its assets should be fully aligned to the Council's **Asset Management Plan** and **Property Strategy** and the annual review of the Capital Strategy will ensure these are aligned as these strategies are reviewed and developed.
- **West of England Combined Authority's (WECA)** aim is to deliver clean and inclusive economic growth for the region and address some of its challenges, including productivity and skills gaps, the need for more homes and congestion.
- WECA is developing a **Spatial Development Strategy** which will be a high level plan to which the Council will align its **Local Plan** which it is currently reviewing. The Core Strategy of the Local Plan was adopted back in 2011. The Council is now considering how Bristol will develop up to 2036. The Local Plan will be updated to set out how the proposed homes will be delivered and show how the Council could exceed current expectations.
- **Joint Asset Board (JAB) / One Public Estate** regional collaboration to use public sector land more efficiently, transform public sector services and strengthen local communities. The JAB links very closely with the West of England Housing Delivery Board.
- West of England **Local Industrial Strategy** was co-produced with government and was launched in July 2019. The strategy draws on the strengths of our region and sets out our ambition to be a driving force for clean and inclusive growth.
- **Western Gateway Sub-National Transport Body** is formed by an alliance of local authorities that have made a commitment to work together to drive innovation, maximise economic growth and improve industrial productivity by strengthening travel connections to local, national and international markets.
- **Great Western Powerhouse -** opportunities are being explored across the West of England and South Wales regions to improve transport connections across the M4-M5 stretch, reduce congestion, speed up rail journey times, increase trade and investment internationally and focus on creating more opportunities for urban and rural areas with problems of deprivation and low skills to take positive action to address these regional challenges.

4. Capital Investment

4.1. The Council has an ambitious capital programme over the next five years. A significant proportion, 73%, of this programme is aligned to large infrastructure investments that will support long term regeneration across the city, such as the programme of new housing building and developing the Temple Quarter area, with 9% aligned to invest to save schemes such as investing in infrastructure to support delivery of Social Care and Education services and 18% invest to maintain propositions, undertaking mandatory duties keeping the public safe and maintaining our assets. The graph below shows the forecast programme spend by capital investment principle. It is to be noted the spend profile reduces over the medium term, primarily due to known one off external funding sources being utilised. The Council will seek to access further external funding to finance its programme in the future.

Figure: Breakdown of current programme between investment principles



4.2. The aim is to better align to the Council's strategic objectives, allocate resources effectively across the services provided and strike a balance between the things that make the most difference to residents, customers and businesses.

4.3. The Covid-19 pandemic will continue to have a huge long term impact on the City and the Council. Locally-led investment in the economy and infrastructure will be critical to provide assurances to investors and local, regional and international partners to help drive and support economic and social recovery.

4.4. The Council needs to make a clear distinction between capital investments, where the achievement of strategic aims will be considered alongside affordability, and treasury management investments, which are made solely for the purpose of cash flow management.

4.5. Investment decisions must be clearly within the economic powers of the Council and whilst commercial decisions will focus on yield, long term capital investment decisions will not be made purely on the basis of financial returns but will also give consideration to economic, social and environmental impact. Notwithstanding that there will be fully externally funded programmes such as those for schools.

4.6. The Council will ensure that all of its investment types are covered in its Capital Strategy and will set out, where relevant, the Council's risk appetite and specific policies and arrangements for its non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

5. Principles for Capital Planning

5.1. Like most public sector bodies the Council has experienced significant delays in the physical progress of a project against the approved profile and cost over runs. This can be directly linked to the size of the programme, capacity to deliver and over optimism about the project in terms of cost, time and external factors outside the sponsor's control.

5.2. When capital schemes are approved their inclusion into the capital programme is based on best estimates and slippage is measured against the approved profile at the end of the financial year. The Council will need to significantly improve its performance that all projects being proposed for inclusion can be delivered within the timeframe and budget stated prior to programme entry. Resource capacity and size of the programme will need to be assessed annually as part of the budget setting process and a range of optimism bias tools that are available should be used in our business case assessments of delivery of major projects, as well as at a programme level.

5.3. Delivery of the programme will be overseen by the established governance boards as outlined in section 8. The Council will operate a clear and transparent corporate approach to the prioritisation of capital spending and the MTFP investment principles are set out in more detail in Table 1 below.

Table 1 Investment principles	
Investing for sustainable, inclusive, economic growth	The Council will expand its capacity to grow the economy in an inclusive manner, whilst delivering whole systems solutions to demographic, social and environmental challenges sustainably across the City
Invest to save and to generate returns	The Council will invest in projects which will: • reduce running costs (including in alternative service areas) • avoid costs (capital or revenue) that would otherwise arise • invest to generate a financial return.
Investment to improve and maintain Council assets	The Council will improve and maintain the condition of core assets to extend their life where appropriate. The Council will make provision for lifecycle investment (capital and revenue) to maintain infrastructure to a standard that effectively supports long term service delivery.
Risk aware	The risks of the project have been fully assessed, consulted, communicated and are at an acceptable level.

5.4. Where appropriate the Council will invest in latest developments in order to stay at the forefront of service delivery, this includes areas such as Smart Technology, low carbon technology, and environmental sustainability. Where this investment is generated from the Council's own resources the principles above will apply.

5.5. When entering into investments with financial return as a purpose, subject to affordability and sustainability the Council must consider the balance between security, liquidity and yield based on its risk appetite and the exit route from the investment. Bristol has not borrowed for outright investment purposes.

5.6. When entering into non-financial investments (financial return is secondary) in addition to the above the Council considers the alignment to its strategic objectives and the contribution, local impact the investment could have to a range of outcomes including City growth, social fabric and the environment.

5.7. The Council is not overly dependent on profit generating investment activity to achieve a balanced revenue budget. Any shortfall in investment income would be reconsidered as part of the MTFP and seek to ensure that the quality of the long term and secure investments minimises the income risk.

Property Investment Portfolio

5.8. The Council owns freehold land across the City where it has granted long leases to developers and investors, and from whom we take ground rents of various kinds as investment income. The estate has been acquired and built up over many years and includes a wide range of property types of variable quality.

5.9. This portfolio generates a revenue return. The return is not a significant element of the net revenue budget and therefore the scale of any associated investment must be proportionate and the risk managed at an acceptable level. In addition to the revenue return the Council also receives capital receipts in exchange for restructuring existing lease terms.

5.10. Investment properties are regularly revalued to market level under a rolling programme. The top 150 properties by value have a formal valuation report annually. Other properties are valued over a 4-year cycle. In between valuations property indices are used for the lower value properties.

5.11. A portfolio approach to commercial property investments needs to be aligned to a Cabinet agreed investment strategy, which will provide an outline of the earmarked envelope available, consistent framework to assess all future investment opportunities and divestment. It will set out the approach for use of the current estate and future opportunities to be able to drive regeneration and economic growth through recycling capital receipts where investment is aligned to principles within this strategy.

Subsidiaries

5.12. Where appropriate the Council will invest in wholly or partly owned companies where this is considered to be the most appropriate means to deliver strategic objectives or for a financial return. The Council may be required to issue Parent Company Guarantees (PCG) or letters of support underwriting activities which will be regularly monitored and appropriately risk assessed. The accounting treatment of any PCGs will be assessed individually in line with relevant accounting standards.

5.13. Third party loans may also be requested by a subsidiary and where these are agreed the Council must ensure appropriate interest rates are applied and arrangements are state aid compliant. The rate of interest applied will take into account control, risks, the different nature of each subsidiaries activities and the potential exposure to the Council.

5.14. The maximum exposure of the council to loans in subsidiary organisations will be governed by an affordability indicator as set out in Section 7.

5.15. These arrangements once agreed via the relevant decision making process will be monitored through the Governance arrangements set out in Section 8. Appropriate disclosures will be made in the statement of accounts, including the fair value of such investments.

Private Finance Initiative

5.16. Although Private Finance Initiative (PFI) schemes are not shown within the capital programme as they are not financed by the Council's capital resources, PFI has been a means by which the Council can facilitate major new infrastructure projects. PFI schemes involve partnerships between the public and private sector to fund public sector infrastructure projects with private capital.

5.17. The Council has three PFI projects associated to 8 schools and 1 leisure centre. Under PFI, a private sector contractor agrees to accept the risks associated with the design, construction, operation and maintenance of the asset over the contract term, which is typically for a 25 year period post construction. The public sector partner pays an annual fixed price during the contract term, part of which is subject to inflation and benchmarked activities. At the end of the term the asset is wholly owned by the Council. The collective annual charge of the contracts is around £33m which includes approximately £19m of interest and debt repayment costs. The government provides some financial support for PFI schemes by way of PFI credits / grants.

5.18. Covid-19 has impacted these schemes creating cost pressures on their operations. Any related financial pressures are dealt with through existing contractual mechanisms which are in place for each specific PFI, but this may impact on the level of the sinking fund available to meet the future costs of the schemes.

5.19. No additional PFI projects are anticipated and any proposals for refinancing or making material variations to existing contractual arrangements will be fully evaluated and presented to members and cabinet for approval.

6. Funding Capital Investment

6.1. The Council's core capital programme is approved as part of the annual budget setting process, by the Cabinet and the Council and is funded from a range of sources, principally:

- Prudential Borrowing
- Grants
- Capital Receipts
- Developer Contributions
- Revenue and Reserves.

6.2. The first call on available capital resources will always be the financing of spending on live projects, including those carried forward from previous years.

6.3. In establishing the most economic means to finance our capital programme we will seek to optimise any freedom and flexibilities given to the Authority from government in how we deploy our capital investment.

6.4. The figure below shows the indicative funding available to the Council for the next ten years within the principles outlined in this strategy and budget as set in the Medium Term Financial Plan.

Table 2: Indicative Funding from 2022/23 to 2031/32 for Capital Investment

2021/22 £000		2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/32 £000	Total £000
47,948	Prudential Borrowing	74,793	28,588	16,909	12,390	50,000	**230,628**
8,659	Developer Contributions	13,267	10,497	3,775	2,800	15,000	**53,998**
25,439	Capital Receipts	22,620	42,796	22,280	10,944	25,000	**149,079**
3,286	Revenue/Reserves	967	-	1,500	-	-	**5,753**
92,083	Grants	48,399	29,284	16,239	11,033	92,750	**289,788**
7,840	Economic Development Fund/Local Growth Fund	32,846	10,009	10,080	478	55,980	**117,233**
185,255	**Sub-total**	**192,892**	**121,174**	**70,783**	**37,645**	**238,730**	**846,479**
28,432	HRA Self financing	41,983	30,634	31,246	31,871	160,000	324,166
58,775	HRA Capital Receipts	10,614	3,102	1,686	-	50,000	124,177
-	HRA Borrowing	-	-	7,447	3,847	-	11,294
-	HRA Revenue / Reserves	39,632	27,395	3,195	2,427	-	72,649
87,207	**Sub-total**	**92,229**	**61,131**	**43,574**	**38,145**	**210,000**	**532,286**
272,462	**Total**	**285,121**	**182,305**	**114,357**	**75,790**	**448,730**	**1,378,765**

Notes:

- *2021/22 to 2025/26 as per approved capital programme reported to Cabinet at Period 5 of 2021/22 financial year*
- *2026/27 to 2031/32 future funding is indicative based on an extrapolation of estimated financing (associated spending is not approved/committed at this stage).*
- *HRA available funding and additional borrowing is being updated as part of a review of the 30 year business plan work due to be incorporated into HRA Budget and Capital Programme in February 2022.*

Capital Receipts

6.5. Capital receipts come from the sale of the Council's assets. If the disposal is within HRA land or property then not all the receipt is available to support the capital programme as a percentage has to be paid over to the DLUHC.

6.6. The current strategy is for the assumed receipts from sale / disposal of assets to be taken into consideration when assessing the total value of receipts targeted to fund the overarching capital programme and planned flexible use of capital receipts.

6.7. Where the asset has been temporarily forward funded from prudential borrowing a review will be undertaken to determine whether the most cost effective option is to utilise the receipt to repay the debt, considering the balance sheet position of the Council.

6.8. Where the sale of an asset leads to a requirement to repay grant the capital receipt will be utilised for this purpose. Once this liability has been established and provided for, the residual capital receipt will be available to support the capital programme as a corporate resource.

6.9. As part of a Property Investment Strategy it would be expected that a certain proportion of capital receipts relating to disposals from the portfolio may be recycled for reinvestment for economic regeneration opportunities aligned to the Investment Strategy and Affordability Principles outlined in this strategy.

6.10. Following notional achievement of the target capital receipt, and subject to an option appraisal, the Council can consider foregoing capital receipts for longer term and sustainable income streams through development sites if it delivers better value for money.

Developer Contributions

6.11. Significant developments across the City are often liable for contributions to the Council in the form of section 106 or a community infrastructure levy (CIL). The community infrastructure levy is split between 5% for administrative costs, 15% to Area Committees and 80% for strategic infrastructure projects.

6.12. The current Capital Programme assumes a level of strategic CIL each year which is allocated to eligible infrastructure within the programme. Impact of Covid has meant delays in developments and also additional legislation was made which allows authorities flexibility to defer payments of CIL due to support developers during the pandemic.

6.13. If contributions reduce the funding and timing of the planned programme will need reviewing. This will also need to consider any outcomes and reforms following the current white paper on planning reforms and proposed changes to replace CIL and section 106 agreements with an Infrastructure Levy.

6.14. Following achievement of the target the Council can consider further projects with which to utilise this funding stream.

Prudential Borrowing

6.15. The Council's TMS sets out how the Council will fund its capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. The management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

6.16. In planning for long term capital investment it is essential the long term revenue financing cost is affordable. Any long term investment is paid for over the life of the assets. It is essential the Council is able to meet the costs of borrowing and minimum revenue provision (MRP) over the life of the asset. In developing subsequent capital schemes it will be with a view to ensuring the capital financing costs are less than 10% as a proportion of General Fund net revenue budget over the medium and long term. The borrowing level as set out above is funded within current allocated revenue budget.

6.17. In taking out new external borrowing the Council will consider a range of different options such as Public Works Loan Board, Market Loans, Private Placements and Bonds (Public, Pooled, Community Municipal Investment and Retail).

Housing Revenue Account

6.18. The **HRA Capital and Revenue Investment Programme** is entirely funded from the ring fenced HRA. The investment programme is driven by the 30 year HRA Business Plan which is reflected in a rolling 5-10 year outlook based on stock condition and planned projects. The annual HRA budget is the first year of the 5 year outlook. Key areas of housing investment set out in the Capital and Revenue Investment Programme include planned and cyclical works; mechanical and electrical and heating; accessible homes and repairs. The programme also includes development and special projects. The HRA capital programme is funded from:

- HRA Self Financing (The Major Repairs Reserve)
- Capital Receipts (HRA – Right to Buy and other asset sales)
- Revenue and Reserves (HRA)
- Capital grants from governmental and other bodies
- Borrowing (HRA)

6.19. Prior to 2018 the HRA had a limit to how much it was allowed to borrow, known as the HRA borrowing cap, which is tighter than the value of their assets, in order to control public borrowing levels. The HRA borrowing cap was abolished in late 2018. The current programme has an additional £11m of borrowing planned. Further borrowing may be undertaken within the HRA subject to overall affordability and requisite business cases which should consider all risks including loss through right to buy.

6.20. The Council can use right-to-buy receipts to fund up to 40% of building new homes, the receipt must be used within five years, if not the receipt is paid to (DLUHC?) Ministry of Housing, Communities and Local Government with interest. The removal of the cap means additional borrowing can be used to meet the remaining 60% costs of new home building.

6.21. Generally capital expenditure would be funded from capital sources however in exception revenue resources are able to be used to fund capital. The main exception is the use of housing rents to fund capital expenditure within the HRA.

6.22. The historic funding strategy within the HRA has been that the principal borrowed hasn't been paid off over the life of assets. However, following changes in the HRA borrowing restriction the Council is adopting plans for a provision to be made in the HRA budget for repayment of debt over and above the historic debt cap to be aligned to the economic asset life.

6.23. Borrowing within the HRA must meet affordability principles as set in the prudential code and not expose the Council to unnecessary risk over the medium and long term. A key measure is the interest cover ratio (ICR) - a measure of how well the fund can meet its fixed interest costs from annual surpluses. The impact of any additional borrowing must be considered over the Medium Term Financial Planning cycle and not drop below the agreed ICR.

Investments

6.24. The Council invests its surplus cash balances with approved financial institutions, predominately banks, building societies and other local authorities in accordance with the Council's Treasury Management Strategy. These funds support meeting our current and future obligations with regards providing revenue services and delivering the capital programme.

6.25. The authority has investments which are expected to generate a commercial and/or social return. For impact investments their primary purposes are to provide service benefits/social impact while the generation of yield and liquidity is secondary. These investments have been funded from a mix of one-off sources.

Feasibility Fund

6.26. To support strengthened governance arrangements and assist in developing schemes with sufficient robustness/certainty before they enter the Development Pool a Capital Scheme Feasibility Fund is to be established. The aim of the Fund is to provide funding to establish reasonable high level budget estimates for potential capital investment schemes at full mandates stage prior to them being proposed for addition into the Development Pool.

6.27. The level of the Fund would be established each year and be aligned to the volume and complexity of schemes at full mandate stage. The Fund will form part of the revenue budget. It will be subject to strict criteria for its use including:

- Proposed scheme must have been assessed against the Capital Prioritisation process and be considered a priority for the Council
- Schemes must be capital investment in nature, have a reasonable likelihood of entering the capital programme and being delivered
- Budget estimates must separately identify cost to develop an OBC, FBC and deliver the scheme
- Once in Development Pool schemes will be required to have an identified funding source to pay for OBC and FBC.

6.28. The governance and reporting mechanism for the Fund will be through Capital Investment Board who will allocate resources to schemes based on outcome of a prioritisation of Pre Mandate schemes. Cabinet will receive an update as part of Monthly Financial Report

Zero Carbon Initiatives

6.29. In November 2018 Bristol City Council declared a climate emergency and as such will consider how impact investments could contribute to support implementation of UNs Sustainable Development Goals (SDGs). This may include Council direct and indirect investment in projects, bonds (private placements, public issuances and community municipal investments and retail bonds), taking lower par on investment and considering how to leverage wider inward investment through underwriting or guaranteeing an element of the proposition.

6.30. The Council is working in partnership with Core Cities to lobby government for the funding to enable the Council to deliver its commitment to be a carbon neutral city by 2030 and will explore the financing options and infrastructure to facilitate zero carbon initiatives in the City.

6.31. The Council recognises that it also needs to actively progress local projects included in its current capital programme to work towards its aim. As part of this the Council could explore community municipal investment or retail bonds up to a certain threshold (see Section 7) to finance zero carbon initiatives.

7. Capital Financing Policies

7.1. This section sets out in more detail how the Council will ensure its investment decisions are consistent with its investment principles and MTFP.

<u>Affordability Policies and Indicators</u>

7.2. The Council must ensure its long term investments are affordable within the Council's overall revenue budget and is able to meet the on-going financing of any borrowing which is undertaken to support this investment.

Table 3 MTFP Affordability Principles
The Council's Prudential Borrowing Commitment

Table 3 MTFP Affordability Principles	
General Fund	• The Council will continue to use a range of funding opportunities that ensure the cost of capital financing does not exceed 10% of general fund net revenue budget over the medium to long term. • The current forecast level is 9.4% by 2025/26, if the Council opted for a 10% level this would equate to an extra £40m of borrowing with an estimated capital financing budget cost of £2.4m. • Any additional capital financing budget would need to be offset by corresponding savings in services to maintain a balanced budget for the Council.

Housing Revenue Account	• The Council will continue to use a range of funding opportunities to ensure the Interest Cover Ratio (ICR) of the HRA is a minimum of 1.25.
	  o The ICR is calculated as the HRA Operating Surplus divided by Interest Costs.
	  o The current ICR in 2021/22 is 1.27.
	• The minimum ICR will be supplemented by an HRA capital investment reserve of at least £10m (approx. 1 year's interest cost) and provision in the HRA budget each year to set aside monies to repay borrowing above the level of the historic HRA debt cap.
	• The 30 year HRA Business Plan is currently being refreshed and the capital investment options being assessed. The Business Plan will be adopted in February 2022, at the same time the HRA budget is set.

Loans to Subsidiaries	• The Council has loans to its subsidiary organisations (Bristol Waste, Goram Homes and Bristol Heat Networks). The current level is £53.8m
	• The maximum level of loans in subsidiaries is the lower of either:
	  o 10% of the Council's general fund capital financing requirement, or
	  o £70m.
	• When loans and investments are repaid they may be recycled into new loans, subject to cabinet/council approval, appropriate safeguards being in place, the above affordability indicators and adequate due diligence undertaken to protect the Council.

Zero Carbon Initiatives	• The Council can explore zero carbon initiatives funded through Community Municipal Investments or Retail Bonds. • The maximum exposure in such investments is £2m. • The exposure to such initiatives would be included within the General Fund capital financing costs exposure of a maximum 10% of the net revenue budget.
Affordability Principles Applied to All Capital Schemes	
Substitute schemes	All new capital investments following setting the annual programme will be subject to defined prioritisation criteria, the capital programme governance arrangements and cabinet/council approval
Evidence based	All projects will require a business case providing a clear statement of the costs, benefits and risk to be realised by the projects which will be subject to proportionate due diligence.
Invest to Save schemes	The business case for an investment to generate a return project or impact funding must:

Table 3 MTFP Affordability Principles	
Calculating the return on investment	• Include the full additional costs and income streams arising from the project including the cost of servicing the debt • **Investments** must demonstrate the ability to achieve a minimum of 6% IRR over a 10 -year period. • **Social Impact** investments eg. social investment must demonstrate the ability to achieve a minimum of 4% IRR or interest over a 10-year period. • The case for investment should demonstrate how the investments are returned by the end of the period.
Invest to Save schemes Being more efficient and creating sustainable services	• Cashable cost reductions or increased income must exceed the costs of borrowing over the pay-back period.
Invest to Grow schemes	• Increased income must exceed the costs of borrowing over the pay-back period. • For major developments the increased business rates and council tax income attributable to the Council's revenue budget may be taken into account.
Social Value	• Where social value is able to be calculated as a notional value this will be taken into account as a secondary consideration to cashable benefits, Return on Investment and Payback. • The concept of Social Value will be a separate consideration in investment appraisals.

Prioritisation of Capital Investment

7.3. The Council's capital governance arrangements in Section 8 set out the approach to progressing schemes through their capital programme lifecycle. A key element of this is prioritisation of total capital investment and individual schemes. Prioritisation aims to ensure the Council's finite resource is targeted at supporting the delivery of the Corporate Strategy and aligned strategies.

7.4. Prioritisation of the capital programme will be undertaken on two levels. Firstly, a strategic prioritisation of overall resources and secondly, a prioritisation of individual schemes.

7.5. The strategic prioritisation will focus on the balance and allocation of resources between Invest to Grow, Invest to Save and Invest to Maintain. As noted in paragraph 4.1, and set out in the table below, the current programme is weighted towards Invest to Grow schemes. This presents a risk that there is insufficient investment in assets which are used to deliver front line services or which generate an income for the Council (Invest to Maintain) and resources set aside to generate ongoing revenue savings (Invest to Save). It is recognised that a strategic rebalance of the programme requires a medium to long term view of the programme. As such over the period of the next 10 years the Council will redress the balance of the capital programme between investment principles.

	Proportion of Capital Programme by Investment Principle
Invest to Grow	73%
Invest to Maintain	18%
Invest to Save	9%

7.6. The individual scheme prioritisation would be undertaken as part of the annual service planning process and form part of the Mandate stage of the capital scheme lifecycle.

Individual schemes/block programmes identified through the annual service planning process would be subject to a capital prioritisation model to assess strategic fit for the Council and level of complexity.

7.7. Schemes that are selected as priority schemes will be taken forward to produce a detailed mandate to undertake a more in depth assessment of costs, funding streams and risks. Schemes would have access to the Feasibility Fund to finance any external costs to develop a detailed mandate. Following completion of a detailed mandate schemes will be considered for entry into the Development Pool. Further details on the individual scheme prioritisation approach are shown in Appendix 2.

7.8. As part of determining the relative priority of strategic resource allocation and individual schemes the following guidance should be considered:

Priority 1 Schemes - highest priorities for capital investment are schemes that either:

- The Council would fail to meet its statutory obligations if the scheme did not proceed and all other mechanism for funding has been exhausted or;
- The scheme can directly deliver on one or more of the key Corporate Strategy/One City Plan commitments for the next 5 years and is to be 100% funded from external resources (ring-fenced grants or other outside contributions

  and,
- The ongoing revenue implications of the project are contained within the existing service budgets either as a result of secured additional internal /external funding or reduction in cashable revenue costs.

Only schemes that meet the above criteria will be defined as priority one.

Priority 2 Schemes - criteria for other projects

Projects which do not meet the criteria above are defined as priority 2 and may be prioritised depending on their fit based on the criteria set out below. The scoring matrix is to be finalised and will be weighted to ensure that a balanced programme can be achieved as outlined in section 2 above. Scores will be indicative and provide a guide for decision making.

i. Scheme demonstrably meets one or more of the key commitments in the corporate strategy for the MTFP period measured by objective criteria

ii. A need for the specific proposal has been identified in the One City Plan or emerging Corporate Strategy

iii. The project will bring about future cashable revenue savings within the wider Council (or cost avoidance where the pressure is built into the MTFP and/or deliver organisation wide efficiencies)

iv. The proposal can be shown to support the delivery of sustainable / inclusive economic growth and regeneration

v. The scheme levers in external support, or attracts additional funding into Bristol, either financial or where the Council is working in partnership with other bodies

vi. Scheme meets a key service objective in the agreed service plan and failure to provide the scheme would result in a significant reduction of the Council's stated level of priority service and/or greater exposure to risk

vii. Provides support to Community Leadership and capacity building develops the locality focus agenda.

Loans and Investments to Subsidiary Companies

7.9. Loans and Investments in companies in which the Council has material shareholdings are assessed differently, as these are prioritised based on delivery of strategic objectives. When considering these investments the Council will examine the Business Plans available to ensure that the plan and the investment is sound, facilitates the delivery of the long term strategy and wider social, economic and or financial benefits will be received back to the Council and residents in the short, medium or longer term.

7.10. Due to the nature of the assets or for valid service reasons, such investments do not always give priority to security and liquidity over yield. In these cases, such a decision will be explicit, with the additional risks set out and the impact on financial sustainability identified and reported. The appropriate level of due diligence will be undertaken with the extent and depth reflecting the level of additional risk being considered and the Chief Finance Officer will ensure affordability and the proportionality of all investments so that the Council does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources.

7.11. The Council will be required to monitor company operations and this will take the form of regular performance and financial monitoring reports to Shareholders. The Council will manage with the affordability indicators set out in Section 7.

8. Governance of the Capital Strategy

Approval of Capital Strategy and Capital Programme

8.1. The Capital Strategy is agreed annually, alongside the MTFP. The Capital Programme is agreed annually by Full Council as part of the budget setting process. Variations to the Capital Programme or in-year additions – subject to delegation – will be agreed by Cabinet. Monthly monitoring of the Capital Programme will be presented to Cabinet.

Strategic Oversight and Delivery

8.2. The Capital Investment Board leads on the development and maintenance of the Capital Strategy that is consistent with the relevant code of practice, Corporate Strategy and core regulatory functions, Medium Term Financial Plan and Treasury Management Strategy.

8.3. The Capital Investment Board has an oversight and stewardship role for the development and delivery of the Council's capital expenditure within affordable limits, which will include both the Capital Programme and capital investments; as well as providing strategic direction to the programme and projects where necessary.

8.4. Delivery of the Strategy is overseen by a joint member/ officer Delivery Executive Board, chaired by the Cabinet Member for Finance, Governance & Performance. These governance arrangements ensure the Capital Programme is effectively managed and for companies that are wholly owned or the Council has a material interest these extend to the Shareholder Group. The Delivery Executive Board's role is to monitor and assess the effectiveness of the capital programme in delivering the Council's strategic objectives. It also monitors the Council's non-financial investments and the appraisal of new investments, ensuring appropriate techniques are used.

Directorate Capital Programme and Project Delivery

8.5. The delivery of individual capital projects and programmes are managed through boards in each directorate e.g. Growth & Regeneration Board, Adult's Strategy & Improvement Board, IT Board and for services which do not have a specific board delivery is managed through Executive Director Meetings. The Boards are responsible to develop, manage and progress capital projects; as well as reporting into both Capital Investment Board and Delivery Executive.

Scrutiny

8.6. The formal scrutiny process will be used to ensure effective challenge. Relevant directorate scrutiny commissions will be responsible for providing scrutiny on individual capital projects which fall under their portfolio.

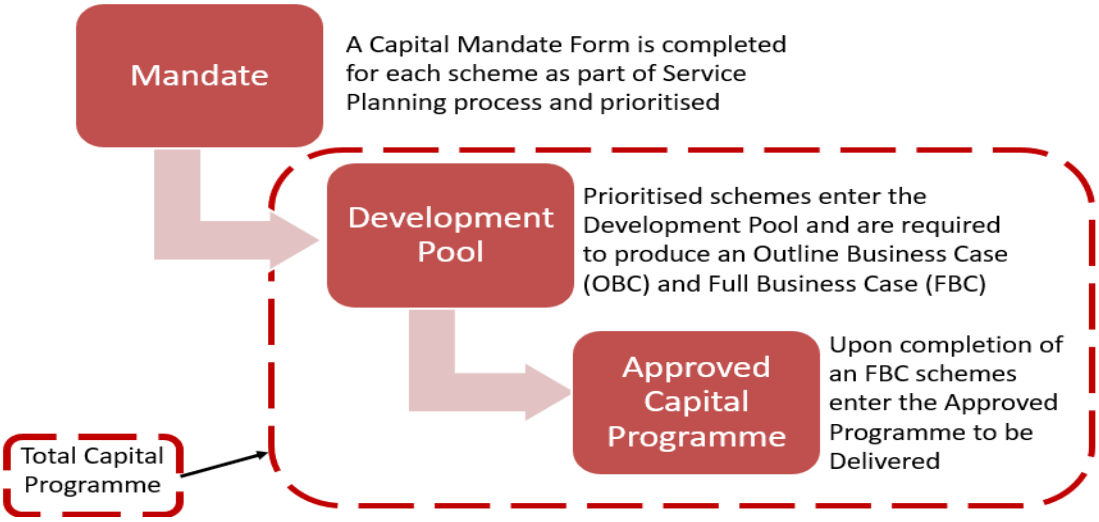
Managing Schemes Through Their Capital Lifecycle

8.7. The management of capital schemes through their lifecycle is an important aspect of delivering a successful capital investment programme. The approach should balance cost/funding certainty, risk, clarity of commitment to scheme, robust governance and transparent decision making.

8.8. An important aspect of the Council's capital governance framework is at which point schemes are in their development stage and when they are sufficiently developed to enter the approved capital programme. The capital programme is split into three broad components:

- Mandate. The initial concept and need for a capital scheme. Schemes will require prioritisation to ensure strategic fit and there are sufficient resources/capacity/capability to deliver the scheme.
- Development Pool. A priority capital scheme in its early/developmental stages, typically outline business case (OBC) and full business case (FBC). At this stage costs/funding/risks are uncertain, gaining certainty as more indepth work is undertaken.
- Approved Capital Programme. This refers to a capital scheme which has been through OBC and FBC stages, and is developed to an acceptable level of certainty to be formally approved in the programme for delivery/implementation.

8.9. The approach to managing schemes through their lifecycle is shown graphically in the diagram below. Further information is shown in Appendix 3.



Key Decision Making Considerations

8.10. All capital investment decisions will be underpinned by a robust business case that sets out any expected financial return alongside the broader outcomes/impacts, including economic, environmental and social benefits.

8.11. Throughout the decision making process the risks and rewards for each project are reviewed and revised and form part of the monitoring of the capital programme. The Capital Investment Board receives monthly updates detailing financial forecasts and risks.

8.12. The governance process for approving capital investments is the same as that for the wider capital programme, with the business case fully reviewed and due diligence undertaken with external and internal risks associated with the investment explored. The Council will compile a schedule setting out a summary of its existing material investment commitments and regularly update the governance boards on the drawdowns, guarantees, financial return and risks exposure.

8.13. There may be occasions when the nature of a particular proposal requires additional support in the production of the business case or for example in performing of a value for money or due diligence review. In these circumstances the Council may seek external advice.

8.14. The capital programme is reported to Cabinet and Council as part of the annual budget setting process which will take into consideration any material changes to the programme and the investment. The in-year position is monitored monthly, with periodic budget reports to Cabinet with capital reports incorporated. Within that monitoring report minor new investment proposals will be included and variations such as slippage and need for acceleration. Major new capital investment decisions will be subject to an individual report to Cabinet.

8.15. The Chief Finance Officer should report explicitly on the affordability and risk associated with the capital strategy. Where appropriate the Chief Finance Officer will have access to specialised advice to enable them to reach their conclusions and ensure sufficiency of reserves should risk or liabilities be realised.

9. Risk Management

9.1. One of the Council's key investment principles is that all investment risks should be understood with appropriate strategies to manage those risks. Major capital projects require careful management to mitigate the potential risks which can arise. The effective monitoring, management and mitigation of these risks is a key part of managing the capital strategy. All projects are required to maintain a risk register and align reporting to the Council's reporting framework.

9.2. In managing the overall programme of investment there are inherent risks associated such as changes in interest rates, credit risk of counter parties.

9.3. Accordingly, the Council will ensure that robust due diligence procedures cover all external capital investment. Where possible contingency plans will be identified at the outset and enacted when appropriate.

9.4. No project or investment will be approved where the level of risk - determined by the Cabinet or Chief Financial Officer as appropriate - is unacceptable.

10. Skills and Knowledge

10.1. Appropriate training will be provided to all charged with investment responsibilities. This includes all those involved in making investment decisions such as members of Capital Investment Board as well as those charged for scrutiny and governance such as relevant scrutiny commissions and audit committee. Training will be provided either as part of meetings or by separate ad hoc arrangements.

10.2. When considering commercial investments, the Council will ensure that appropriate specialist advice is taken. If this is not available internally it will be commissioned externally to inform decision making and appropriate use will be made of the Council's Treasury Management advisers.

11. Capital Governance Improvement Plan

11.1. The Council recognises it needs to improve its capital governance, delivery capacity and related processes. In the last 12 months it has enhanced its capital strategy, appointed a delivery partner (Arcadis) to provide delivery capacity, improved governance arrangements for the delivery of capital projects and developed its financial processes. However, further improvements are planned over the forthcoming year.

11.2. The cCuncil has developed and is implementing a capital governance improvement plan. The core elements of the plan are in the process of being implemented, with the majority of actions expected to be operational by April 2022. However, it is recognised that the embedding of the new governance arrangements, delivery enhancements and related processes will take time to fully embed within the culture of the Council, and the full benefits are expected to be realised over the medium term period.

Appendix 1

Our Corporate Strategy – at a glance

Vision

"We play a leading role in driving an inclusive, sustainable and healthy city of hope and aspiration, one where everyone can share in its success."

Building Blocks

We have chosen five principles that we call our 'building blocks'. These affect all our priorities and influence everything we do.

Development and Delivery

Develop people, places and partnerships to improve outcomes. Deliver quality public services while releasing the expertise and resources of empowered communities, individuals, community groups and city partners to help shape and deliver city priorities.

Environmental Sustainability

Tackle the Climate and Ecological Emergencies while inclusively growing the economy, maximising our positive environmental impacts and avoiding or mitigating negative ones wherever possible. Build our climate and ecological resilience.

Equality and Inclusion

Pro-actively and intentionally improve equality and inclusion across the city by designing it into everything we do. Work to make sure that everyone in Bristol feels they belong, has a voice and an equal opportunity to succeed and thrive.

Resilience

Build Bristol's city resilience through early intervention, minimising our contribution to future environmental, economic or social shocks and stresses. Build our ability to cope by learning from our past, taking a preventative approach and planning for long-term outcomes that support resilience.

World Class Employment

Role model, influence and promote the highest levels and standards of employment. Work with partners to drive for workforces that reflect the population, and workplaces that are healthy and inclusive, offering opportunities to progress and offering a Real Living Wage as standard.

Themes

To make sure we are clear about how we spend our time, effort and money, we have the following strategic themes and priorities. These express the major issues that we believe are most important in achieving our vision.

Children and Young People

A city where every child belongs and every child gets the best start in life, whatever circumstances they were born into.

Economy and Skills

Economic growth that builds inclusive and resilient communities, decarbonises the city and offers equity of opportunity.

Environment and Sustainability

Decarbonise the city, support the recovery of nature and lead a just transition to a low-carbon future.

Health, Care and Wellbeing

Tackle health inequalities to help people stay healthier and happier throughout their lives.

Homes and Communities

Healthy, resilient and inclusive neighbourhoods with fair access to decent, affordable homes.

Transport and Connectivity

A more efficient, sustainable and inclusive connection of people to people, people to jobs and people to opportunity.

Effective Development Organisation

From city government to city governance: creating a focussed council that empowers individuals, communities and partners to flourish and lead.

Values and Behaviours

- **We are Dedicated**
- **We are Curious**
- **We show Respect**
- **We take Ownership**
- **We are Collaborative**

Appendix 2

Capital Prioritisation – Individual Scheme Prioritisation Criteria

	Service Planning [Capital] Projects		
	Prioritisation Category	**Weighting %**	**Scoring Criteria**
	Strategic Fit [invest to grow]	TBC	1a Pass/Fail 1b alignment 1c impact
	Financial Benefit [invest to save]	TBC	Net annual savings/cost [direct/indirect] Payback
	Business Risk [invest to maintain]	TBC	Impact of not doing project Asset condition
	Innovation	TBC	Level of innovation against tried and tested
	Not Used – merged into Financial Benefit Criteria		
	Funding Source	TBC	Type, certainty, proportion & leverage
	Risk	TBC	Deliverability likelihood Optimism bias

Appendix 3

Capital Programme Governance Arrangements: Managing a Scheme Through its Lifecycle